

PERAC AUDIT REPORT



Somerville Contributory Retirement System
JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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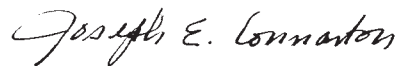
December 17, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Somerville Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Cash Reconciliation

At the start of the audit field work the Board had not received a reconciliation of checking accounts from the City Treasurer since May 2006. Reconciliations were received by the auditor during the field work. A review of the bank reconciliation for the two Bank of America checking accounts used to disburse retirement benefits and general expenses for the period ending December 31, 2007 revealed there was a \$51,172.16 unexplained variance between the adjusted bank balance and the general ledger for the account used for disbursing pension benefits. The general expense checking account also had an unexplained variance of \$3,566.12 as of December 31, 2007. A more recent reconciliation for activity posted through June 30, 2008 revealed unexplained variances of \$68,026.31 and \$3,303.80 respectively. Variances also were noted in the previous PERAC audit report as well as failure to receive timely reconciliations from the Treasurer.

As of June 30, 2008, there were 34 checks outstanding for more than six months for the pension checking account. These outstanding checks totaled approximately \$63,500. This finding demonstrates a lack of research and resolution concerning stale checks that are identified as outstanding during the reconciliation process. A similar finding concerning stale checks was also included in the previous PERAC audit report.

Recommendation: The City Treasurer shall be the custodian of the retirement systems funds according to G.L. c. 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfills his/her obligation as custodian of the fund. The treasurer must reconcile the cash account monthly and forward appropriate paperwork (copies of bank statements, reconciliation and outstanding check list) to the retirement board in a timely manner. The retirement board should then reconcile the bank statements to the general ledger. Variances must be explained and adjusting entries made. The Board should review the specifics of each reconciliation at their monthly meeting.

Checks that are identified as being outstanding for more than six months should be researched so that they can be properly voided and updated.

Board Response:

Personnel issues have plagued the City Treasurer's department, preventing consistent reconciliation of the Retirement accounts. These issues have been addressed. Reconciliations of all Retirement accounts now occur and are reviewed on a regular basis. As part of the Retirement Board's fiduciary responsibility, a review of banking services was conducted. The Retirement Board determined that the City of Somerville's banking relationship was more cost effective. Implementations of new banking services begin January 1, 2009. As a result, all outstanding checks from the Retirement Board's prior banking relationship will be researched, voided and updated, as necessary.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

2. Accounting

Beginning in 2006 unrealized gains and losses were recorded as realized gains and losses for two equity fund managers. This resulted in overstating the realized gains/losses and understating the unrealized gains and losses on the general ledger and Annual Statements for 2006 and 2007.

Recommendation: Realized gains must be recorded in general ledger account number 4884 and realized losses recorded in general ledger account number 4885. Unrealized gains must be recorded in general ledger account number 4886 and unrealized losses recorded in general ledger account number 4887.

Board Response:

Going forward, all equity funds under custody will have their year-end mark-to-market gains recorded as unrealized gains and/or losses.

3. Regular Compensation

There are several governmental units' Collective Bargaining Agreements that include clothing allowance payments for employees. Retirement deductions are not withheld on these payments. These are regular, recurring payments which should be classified as regular earnings for retirement purposes.

Recommendation: Clothing allowances must be considered regular compensation pursuant to 840 CMR 15.03(1) (a) which states in part: "(a) To be considered regular compensation, any compensation to an employee must: ...

3. be ordinary, normal, recurring, repeated...

4. be made pursuant to an official written policy of the employer or to a collective bargaining agreement..."

The Board must formally instruct the payroll officers to begin withholding retirement deductions on clothing allowances paid to members. The rate of deduction must be the same as the member's other compensation, plus the additional 2% if applicable for total regular compensation that exceeds \$30,000 on an annualized basis for any pay period.

Board Response:

At their meeting on November 20, 2008, the SRB voted that clothing allowance would be regular compensation.

4. Membership

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and became members after January 1, 1979. It was observed that school department members receive separate checks for longevity. For the pay period when more than one pay check

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll department annualizes each earnings payment based on \$30,000 annually rather than combining regular earnings. The additional 2% on earnings over \$30,000 is not being correctly calculated when more than one pay check is generated per pay period.

Recommendation: The Board must comply with G.L. c. 32, § 22(1) (b $\frac{1}{2}$), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay period basis. The payroll system should combine all earnings subject to retirement deductions for each member from all payroll sources. This provides the proper basis for calculating the additional 2% deduction accurately and consistently.

Board Response:

The SRS staff has been in contact with the School Department. School employees received longevity in late November. The additional 2% was withheld.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$6,408,376	\$9,025,005	\$7,637,209
Short Term Investments	0	0	9,972,197
Fixed Income Securities	7,209,129	7,240,733	250,000
Equities	82,138,283	71,526,638	64,752,717
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	10,129,009	14,585,476	12,820,795
Pooled International Equity Funds	12,519,416	10,791,515	8,665,112
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	44,371,368	40,649,185	31,888,155
Pooled Alternative Investment Funds	737,536	904,186	1,043,182
Pooled Real Estate Funds	20,836,898	18,182,206	15,555,535
Interest Due and Accrued	96,637	103,077	32,643
Accounts Receivable	5,917,531	347,243	5,986,735
Accounts Payable	(128,598)	(77,832)	(7,772)
Total	<u>\$190,235,585</u>	<u>\$173,277,432</u>	<u>\$158,596,506</u>
Fund Balances:			
Annuity Savings Fund	\$50,601,299	\$47,951,225	\$45,120,878
Annuity Reserve Fund	16,582,249	16,471,265	16,758,046
Pension Fund	4,542,183	3,917,459	3,072,773
Military Service Fund	38,650	36,213	30,469
Expense Fund	0	0	0
Pension Reserve Fund	118,471,204	104,901,269	93,614,340
Total	<u>\$190,235,585</u>	<u>\$173,277,432</u>	<u>\$158,596,506</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$42,424,771	\$17,417,831	\$2,695,755	\$7,329	\$0	\$89,954,824	\$152,500,509
Receipts	4,806,527	501,413	12,466,363	178	1,742,095	7,484,026	27,000,602
Interfund Transfers	(897,243)	927,391	3,771,398	22,963	0	(3,824,509)	0
Disbursements	(1,213,177)	(2,088,590)	(15,860,743)	0	(1,742,095)	0	(20,904,606)
Ending Balance (2005)	45,120,878	16,758,046	3,072,773	30,469	0	93,614,340	158,596,506
Receipts	5,160,320	494,908	12,424,692	183	1,511,124	16,218,223	35,809,450
Interfund Transfers	(1,409,124)	1,412,839	4,922,017	5,562	0	(4,931,294)	0
Disbursements	(920,849)	(2,194,527)	(16,502,023)	0	(1,511,124)	0	(21,128,524)
Ending Balance (2006)	47,951,225	16,471,265	3,917,459	36,213	0	104,901,269	173,277,432
Receipts	5,381,301	494,923	12,709,316	191	1,444,720	18,223,684	38,254,134
Interfund Transfers	(1,819,379)	1,819,379	4,651,503	2,246	0	(4,653,749)	0
Disbursements	(911,848)	(2,203,318)	(16,736,096)	0	(1,444,720)	0	(21,295,982)
Ending Balance (2007)	<u>\$50,601,299</u>	<u>\$16,582,249</u>	<u>\$4,542,183</u>	<u>\$38,650</u>	<u>\$0</u>	<u>\$118,471,204</u>	<u>\$190,235,585</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$4,871,687	\$4,446,622	\$4,283,599
Transfers from Other Systems	203,855	392,242	227,443
Member Make Up Payments and Re-deposits	21,626	55,082	17,768
Member Payments from Rollovers	7,306	3,637	29,858
Investment Income Credited to Member Accounts	<u>276,826</u>	<u>262,737</u>	<u>247,859</u>
Sub Total	<u>5,381,301</u>	<u>5,160,320</u>	<u>4,806,527</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>494,923</u>	<u>494,908</u>	<u>501,413</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	193,466	174,682	176,251
Pension Fund Appropriation	<u>734,959</u>	<u>798,186</u>	<u>879,287</u>
Sub Total	<u>11,780,891</u>	<u>11,451,824</u>	<u>11,410,825</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>191</u>	<u>183</u>	<u>178</u>
Sub Total	<u>191</u>	<u>183</u>	<u>178</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,444,720</u>	<u>1,511,124</u>	<u>1,742,095</u>
Sub Total	<u>1,444,720</u>	<u>1,511,124</u>	<u>1,742,095</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	88,281	124,734	86,891
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,025	4,432	5,976
Miscellaneous Income	0	501	44
Excess Investment Income	<u>18,131,378</u>	<u>16,088,556</u>	<u>7,391,115</u>
Sub Total	<u>18,223,684</u>	<u>16,218,223</u>	<u>7,484,026</u>
Total Receipts	<u>\$38,254,134</u>	<u>\$35,809,450</u>	<u>\$27,000,602</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$419,661	\$482,285	\$544,266
Transfers to Other Systems	492,187	438,564	668,910
Sub Total	911,848	920,849	1,213,177
Annuity Reserve Fund:			
Annuities Paid	2,160,858	2,069,579	2,031,947
Option B Refunds	42,460	124,949	56,643
Sub Total	2,203,318	2,194,527	2,088,590
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	8,894,800	8,692,410	8,568,783
Survivorship Payments	588,712	550,109	506,824
Ordinary Disability Payments	117,266	102,610	109,049
Accidental Disability Payments	2,675,200	2,968,452	2,676,037
Accidental Death Payments	1,273,845	1,214,164	1,177,162
Section 101 Benefits	33,291	33,483	35,343
3 (8) (c) Reimbursements to Other Systems	543,970	436,086	473,929
State Reimbursable COLA's Paid	2,507,081	2,395,390	2,212,730
Chapter 389 Beneficiary Increase Paid	101,932	109,320	100,886
Sub Total	16,736,096	16,502,023	15,860,743
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	18,000	18,000	15,250
Salaries	237,770	230,403	251,186
Legal Expenses	36,676	5,604	5,808
Medical Expenses	72	145	0
Travel Expenses	7,200	14,932	11,871
Administrative Expenses	41,951	41,386	6,785
Furniture and Equipment	5,097	13,255	0
Management Fees	1,047,679	1,147,118	1,407,786
Custodial Fees	28,185	39,659	36,639
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	21,314	295	6,444
Fiduciary Insurance	776	326	326
Sub Total	1,444,720	1,511,124	1,742,095
Total Disbursements	\$21,295,982	\$21,128,524	\$20,904,606

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$352,140	\$334,854	\$203,322
Short Term Investments	0	109,196	0
Fixed Income	621,357	397,702	672,654
Equities	833,645	728,764	744,740
Pooled or Mutual Funds	3,998,678	4,234,595	3,546,622
Commission Recapture	0	0	0
Total Investment Income	<u>5,805,819</u>	<u>5,805,110</u>	<u>5,167,338</u>
Plus:			
Realized Gains	13,985,031	10,467,108	642,074
Unrealized Gains	8,122,140	9,010,509	12,800,519
Interest Due and Accrued - Current Year	<u>96,637</u>	<u>103,077</u>	<u>32,643</u>
Sub Total	<u>22,203,808</u>	<u>19,580,695</u>	<u>13,475,236</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(67,709)	(191,559)	(76,082)
Realized Loss	(3,822,995)	(4,881,483)	(4,929,943)
Unrealized Loss	(3,667,808)	(1,922,613)	(3,630,050)
Interest Due and Accrued - Prior Year	<u>(103,077)</u>	<u>(32,643)</u>	<u>(123,838)</u>
Sub Total	<u>(7,661,590)</u>	<u>(7,028,297)</u>	<u>(8,759,914)</u>
Net Investment Income	<u>20,348,038</u>	<u>18,357,508</u>	<u>9,882,660</u>
Income Required:			
Annuity Savings Fund	276,826	262,737	247,859
Annuity Reserve Fund	494,923	494,908	501,413
Military Service Fund	191	183	178
Expense Fund	<u>1,444,720</u>	<u>1,511,124</u>	<u>1,742,095</u>
Total Income Required	<u>2,216,660</u>	<u>2,268,952</u>	<u>2,491,546</u>
Net Investment Income	<u>20,348,038</u>	<u>18,357,508</u>	<u>9,882,660</u>
Less: Total Income Required	<u>2,216,660</u>	<u>2,268,952</u>	<u>2,491,546</u>
Excess Income To The Pension Reserve Fund	<u>\$18,131,378</u>	<u>\$16,088,556</u>	<u>\$7,391,115</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$6,408,376	3.5%	100%
Short Term	0	0.0%	100%
Fixed Income	7,209,129	3.9%	
Equities	82,138,283	44.6%	
Pooled Short Term Funds	0	0.0%	
Pooled Domestic Equity Funds	10,129,009	5.5%	
Pooled International Equity Funds	12,519,416	6.8%	
Pooled Global Equity Funds	0	0.0%	
Pooled Domestic Fixed Income Funds	44,371,368	24.1%	
Pooled Alternative Investment Funds	737,536	0.4%	5%
Pooled Real Estate Funds	<u>20,836,898</u>	<u>11.3%</u>	5%
Grand Total	<u>\$184,350,015</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Somerville Retirement System was 12.14%. For the five year period ending December 31, 2007, the rate of return for the investments of the Somerville Retirement System averaged 12.46%. For the twenty- three-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Somerville Retirement System was 10.03%.

SUPPLEMENTARY INVESTMENT REGULATIONS

All previously approved supplementary investment regulations for the Somerville Retirement System have been rescinded per Public Employee Retirement Administration Commission approval letter dated March 2, 2001.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Somerville Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Somerville Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

May 19, 1998

Creditable Service

- 1). That persons employed by the Election Department for working on the "census" may not pay a makeup for this time.
- 2). That draftsman (interns) hired by the Department of Public Works on a temporary basis will not join the Somerville Retirement System.

August 16, 1995

Monies Paid

Hazardous Duty Material monies paid to Somerville Fire Department employees shall be considered regular compensation.

November 29, 1994

Membership

To allow full-time, including provisional and temporary, employees to join the Somerville Retirement System immediately upon employment.

August 19, 1994

Creditable Service

All members of the Somerville Retirement System whether they be full-time or part-time shall be granted 12 months creditable service for each full year of membership.

March 28, 1988

Membership

Persons who were employed by the City of Somerville prior to January 1, 1984 and are being paid out of Federal Funds will become members of the Somerville Retirement System at an annual contribution rate of 7% due to the fact that they had been denied membership prior to that date.

April 24, 1985

Classification

To classify licensed electricians employed by the Somerville Housing Authority in Group 2 as of March 14, 1985.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 26, 1984

Rules & Regulations (amended 1994)

Regularly employed part-time employees working a minimum of twenty (20) hours per week must join the retirement system upon first date of employment;

Provisional or temporary part time employees working a minimum of twenty (20) hours per week must join the retirement system after working for six (6) consecutive months;

No employees may join the retirement system unless they work a minimum of twenty (20) hours per week;

All non-elected board members must join the retirement system upon the first date of employment;

Election department employees paid by name for census are not eligible for membership in the retirement system;

All new employees shall be examined by a physician and a written report shall be filed in the retirement system prior to their acceptance in the retirement system;

Board members shall receive one (1) year of service for each year of service;

Part-time employees who work at least twenty (20) hours per week shall receive one (1) year of service for each year of service;

Seasonal part-time employees who work at least twenty hours per week for seven (7) months or for the full season whichever is larger shall receive one (1) year of service of each year of service;

The following formula shall be used for all hourly persons working for less than twenty (20) hours per week and for those seasonal employees who do not work for at least seven (7) months or the full season whichever is longer:

- number of hours worked per year divided by twenty (20)
- divided by the normal working period of the position
- multiplied by 12 months = creditable service granted.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director/City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Edward F. Bean, Jr.

Appointed Member:	Lawrence Murphy	Term Expires:	Until successor Is named
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Elected Member:	John M. Memory	Term Expires:	1/4/10
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Elected Member:	Mary A. Phinney	Term Expires:	1/5/11
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Appointed Member:	John E. Rourke	Term Expires:	1/5/11
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The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$500,000 per Board Member
Elected Member:)	Western Surety Company
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2007.

The actuarial liability for active members was	\$117,421,713
The actuarial liability for retired members was	<u>149,032,309</u>
The total actuarial liability was	266,454,022
System assets as of that date were	<u>167,527,653</u>
 The unfunded actuarial liability was	 <u>\$98,926,369</u>
The ratio of system's assets to total actuarial liability was	62.9%
As of that date the total covered employee payroll was	\$48,837,222

The normal cost for employees on that date was 8.20% of payroll

The normal cost for the employer was 4.80% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	4.25% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$167,527,653	\$266,454,022	\$98,926,369	62.9%	\$48,837,222	202.6%
1/1/2004	\$145,850,905	\$246,797,910	\$100,947,005	59.1%	\$43,875,838	230.1%
1/1/2001	\$134,378,449	\$204,557,523	\$70,179,074	65.7%	\$44,779,084	156.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	32	47	10	29	74	53	13	9	9	20
Ordinary Disability	1	1	0	0	1	1	0	0	0	0
Accidental Disability	1	5	0	1	6	4	8	5	2	2
Total Retirements	34	53	10	30	81	58	21	14	11	22
Total Retirees, Beneficiaries and Survivors	902	952	896	935	976	995	985	949	908	926
Total Active Members	1,182	1,198	1,232	1,252	1,185	1,068	1,107	1,129	1,128	1,156
Pension Payments										
Superannuation	\$5,414,991	\$6,244,897	\$5,935,567	\$6,287,989	\$7,033,415	\$8,082,387	\$8,618,967	8,568,783	8,692,410	8,894,800
Survivor/Beneficiary Payments	286,194	413,208	286,560	279,909	422,269	444,318	510,919	506,824	550,109	588,712
Ordinary Disability	146,619	208,637	167,586	126,367	124,925	116,944	126,493	109,049	102,610	117,266
Accidental Disability	2,321,271	2,482,536	2,392,735	2,319,227	2,364,287	2,443,731	2,539,200	2,676,037	2,968,452	2,675,200
Other	2,519,137	1,554,426	2,991,905	3,152,144	3,495,355	3,375,237	4,150,195	4,000,050	4,188,442	4,460,118
Total Payments for Year	<u>\$10,688,212</u>	<u>\$10,903,704</u>	<u>\$11,774,353</u>	<u>\$12,165,636</u>	<u>\$13,440,251</u>	<u>\$14,462,617</u>	<u>\$15,945,774</u>	<u>\$15,860,743</u>	<u>\$16,502,023</u>	<u>\$16,736,096</u>

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